

# Gaming Market Report

## Introduction

In each year since 1999, the Commission has used this section to articulate its philosophy for managing Missouri's commercial gaming market. Missouri statutes assign the Commission responsibility for determining the number, location and type of riverboat casinos.<sup>1</sup> The statute also authorizes the Commission to issue licenses to applicants that best serve the interests of Missouri.<sup>2</sup> During this five-year period, the Commission has warned licensees, with progressive emphasis, that their failure to maintain a competitive facility will cause the Commission to consider proposals from other applicants in the market that are willing to develop facilities capable of maximizing the benefits a gaming license provides.

The President Casino in downtown St. Louis failed to heed the Commission's warnings as its facility has continuously fallen behind its competitors in both Missouri and Illinois. The President's inability to develop a competitive facility motivated St. Louis Mayor Francis Slay to appear before the Commission to request that it consider applications for new developments that would offer a destination attraction for downtown St. Louis.<sup>3</sup>

Market conditions in the St. Louis metropolitan area have indicated for some time there is room for casino expansion. Before 2002, the Commission believed that such expansion should occur in a manner that would have a limited impact on existing licensees and would not encroach on any licensee's primary market. Thus, the Commission's St. Louis market study in July 2000 led to the selection of Isle of Capri's project in Jefferson County in large part because of its location in the far south of the market. The Commission's study placed significant emphasis on a project least likely to damage the President's business.<sup>4</sup>

The Commission would later withdraw its selection of the Isle of Capri project in Jefferson County for reasons unrelated to the market.<sup>5</sup> The Commission did not revisit expansion in the St. Louis market until Mayor Slay's appearance in May 2002. By this time, it had become clear the President was either unwilling or unable to develop a competitive facility. On June 24, 2002, the staff presented its analysis of the St. Louis market to the Commission, which continued to show demand for new capacity in the suburban south of the St. Louis metropolitan market. The study also highlighted the advantages of a quality development in downtown St. Louis and agreed with Mayor Slay that the President Casino underachieved.<sup>6</sup>

Following the Commission's announcement of its position on the St. Louis market, two high quality proposals emerged for downtown St. Louis. Both proposals include new or upgraded hotel rooms to support a state-of-the-art casino facility and are complimented with a variety of non-gaming entertainment options. The proposals, which represent investments of between \$161 million and \$208 million, meet the goals set by the City of St. Louis and offer the Commission the option of allowing a high quality destination casino to be constructed in downtown St. Louis.

At the time of this writing, the Commission is entering the final stages of its selection process for the St. Louis market. In addition to the proposals in downtown St. Louis, the Commission is also considering four casino proposals in the suburban south of the market. The Commission is confident that its selection process has set a new standard for its thoroughness and impartiality.

<sup>1</sup> Section 313.812.1, RSMo.

<sup>2</sup> Section 313.805(1), RSMo.

<sup>3</sup> The following is an excerpt from Mayor Slay's testimony to the Commission on May 23, 2002: "Downtown is the public face to our city and indeed to our region. It is the biggest center of employment, the home of our sports teams, the place that is St. Louis. It is even now the primary center of our metropolitan area in image and reality. We believe that the unique combination of attractions, convention center, the major league sports venues, the historic Laclede's Landing area, the Gateway Arch and growing Washington Avenue loft district make downtown a magnet for tourists throughout the region, across the nation and around the world. Gaming should be a centerpiece of that effort. We believe the St. Louis Riverfront is the best site in the state for a first-rate gaming facility with a hotel, quality restaurants and other entertainment attractions, but we do not have that on our



riverfront right now. In comparison with other metropolitan areas, casino projects throughout the state, even in comparison with projects in much smaller areas, our location underachieves. In short, we want a first-rate gaming facility with all the amenities that would make it a destination attraction. We are not in the City of St. Louis casino licensing experts. That is your job. The City of St. Louis will work with you, the President and anyone else to help reach the potential that I know we can reach. The City of St. Louis and State of Missouri want and deserve something much better. We are eager to work with developers that ensure that the area north of Laclede's Landing becomes one of the premiere gaming sites and one of the premiere mixed use developments in the United States."

## Statewide Market

Statewide gaming revenue increased 8% to just over \$1.4 billion in FY 2004, matching the growth rate from the prior year. The gain reflects a 5% increase in patron volume combined with a 3% increase in Win Per Patron (WPP). WPP is the amount the casino wins, on average, per each patron visit. The increase in patron volume reflects higher marketing expenditures and various expansion projects, particularly in the Kansas City market. The increase in WPP primarily reflects a higher slot hold percentage, continuing the trend from last year. The following table offers a statewide statistical comparison of fiscal years 2003 and 2004.

	FY 2004	FY 2003	% Change
<b>Gaming Revenue</b>	\$ 1,405,018,000	\$ 1,305,025,000	7.7%
<b>Patrons</b>	24,924,000	23,736,000	5.0%
<b>Win Per Patron</b>	\$ 56.37	\$ 54.98	2.5%

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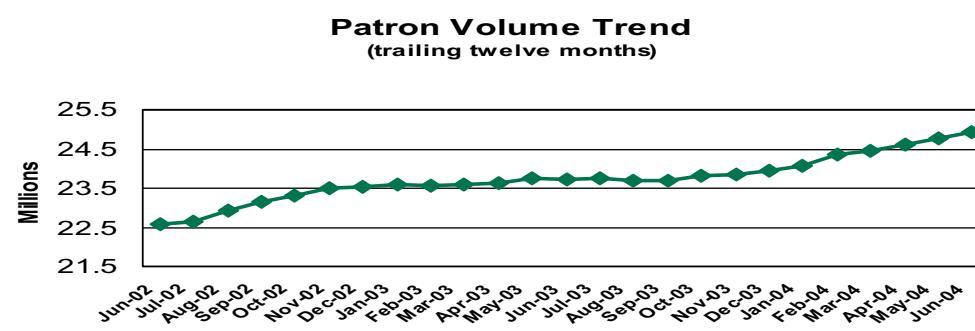
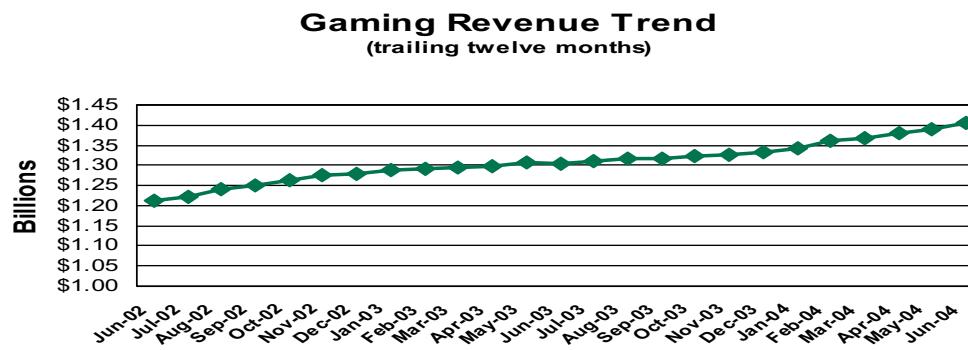


Based on current statewide trends that show patron volume on the rise and stabilizing WPP (see graphs below), the Commission expects moderate to strong growth to continue for the first half of the coming fiscal year, easing into a moderate to slow growth mode for the second half.

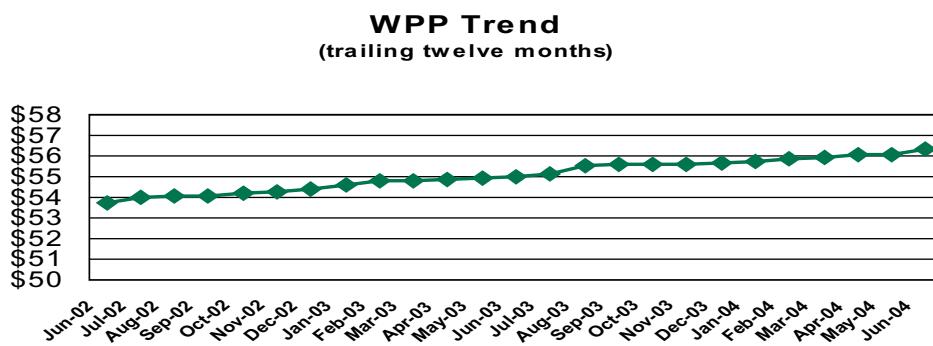
<sup>4</sup> Missouri Gaming Commission St. Louis Market Study, July 26, 2000, pages 3-4.

<sup>5</sup> The Commission found that Isle of Capri unintentionally provided false information to the Commission with regard to the status of permits from the Union Pacific Railroad and the Missouri Department of Transportation. Furthermore, the Commission discovered serious and substantial issues relating to the appropriateness of the proposed Jefferson County casino site, including, but not limited to, the ability of Isle of Capri-Jefferson County to provide suitable access to the site. Thus, on September 26, 2001, the Commission rescinded the priority status of Isle of Capri-Jefferson County.

<sup>6</sup> Following the staff's report the Commission adopted Resolution 02-054 directing the Executive Director to consider Class A license applications from companies proposing to construct a casino in the St. Louis metropolitan area and consider plans from potential home dock cities or counties. The resolution also ordered the Executive Director to evaluate such plans and make a recommendation to the Commission as to which applicant, if any, should be named as a priority for investigation pursuant to 11 CSR 45-4.060.



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## Kansas City Market

The Kansas City market posted gaming revenue of \$649 million for the fiscal year, a 6% increase over the prior year. The gain reflects an increase in patron volume resulting from the completion of various expansion projects and higher marketing expenditures. The expansions included the new \$105 million Argosy casino, the addition of 400 slot machines on an expanded gaming floor at the Isle of Capri and new restaurants and casino upgrades at Ameristar.

The Kansas City market will likely report moderate growth in the coming year as the momentum from the expansions continues.

	FY 2004	FY 2003	% Change
<b>Gaming Revenue</b>	\$ 649,755,000	\$ 612,558,000	6.1%
<b>Patrons</b>	11,413,000	10,774,000	5.9%
<b>Win Per Patron</b>	\$ 56.93	\$ 56.86	0.1%

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## St. Louis Market

The Missouri boats in the St. Louis market had another good year as gaming revenue increased 10% to \$611 million. The gain was fueled by marketing programs that drove patron volume higher by 6%, partly at the expense of the Illinois boats in the St. Louis market. The St. Louis market will likely show moderate growth in the coming fiscal year, supported by an \$85 million expansion at Harrah's that was completed in August 2004. The expansion features a 211 room hotel tower, added meeting space and several new restaurants.

The Illinois boats in the St. Louis market posted gaming revenue of \$267 million, down slightly from last year. They captured 30% of the gaming revenue in the St. Louis market, down from 33% in the prior year, as the superior facilities on the Missouri side continue to capture market share.

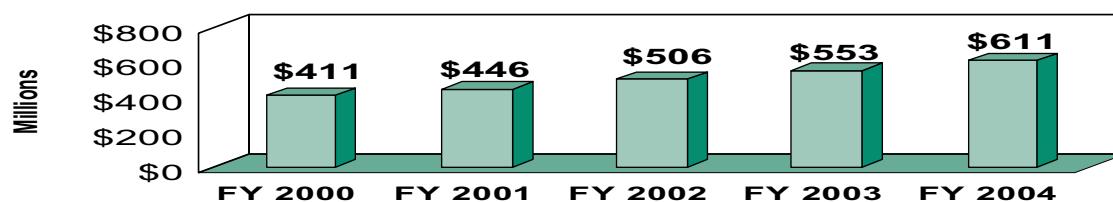
In terms of gaming revenue, the total St. Louis market still ranks eighth out of 38 markets in the United States.

	FY 2004	FY 2003	% Change
<b>Missouri Boats</b>			
Gaming Revenue	\$ 611,265,000	\$ 553,328,000	10.5%
Patrons	11,044,000	10,418,000	6.0%
Win Per Patron	\$ 55.35	\$ 53.11	4.2%
<b>Illinois Boats</b>			
Gaming Revenue	\$ 267,119,000	\$ 273,950,000	-2.5%
Patrons	3,534,000	3,625,000	-2.5%
Win Per Patron	\$ 75.59	\$ 75.57	0.0%

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### St. Louis Market Gaming Revenue

Missouri Boats Only



## Other Markets

In the out-state markets, gaming revenue increased 3% to \$144 million, despite a 3% decline in patron volume. The gain primarily reflects strong performance in Boonville as gaming revenue increased 9%, on higher WPP. The more mature markets in Caruthersville and St. Joseph posted a combined 4% decline in gaming revenue thanks to struggling regional economies, a lack of expansion projects and a lack of substantial marketing efforts. The LaGrange casino showed some growth, despite a sharp decline in patron volume, as the market continues to mature.

The St. Jo Frontier casino in St. Joseph and the Mark Twain casino in LaGrange were recently sold to Herbst Gaming, a small Las Vegas casino and slot route operator. The new owners plan to invest in both properties to improve various aspects of the operation.

	FY 2004	FY 2003	% Change
<b>Gaming Revenue</b>	\$ 143,998,000	\$ 139,139,000	3.5%
<b>Patrons</b>	2,468,000	2,545,000	-3.0%
<b>Win Per Patron</b>	\$ 58.35	\$ 54.67	6.7%

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### Other Market Gaming Revenue

